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DIRECTORATE OF  
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**[ South Vietnam:** The latest surge of Communist military activity was shortlived; action yesterday was greatly reduced.

The sharp decrease in Communist attacks reinforces earlier signs that the enemy's autumn campaign will consist of a series of "high points," followed by periods of relatively light activity. The next attacks may be scheduled to coincide with the upcoming Communist holiday on 19 August. Large enemy formations continue to maneuver in the area northwest of Saigon where several reports predict the enemy intends to attack soon.

\* \* \* \*

President Thieu and Prime Minister Huong have resolved at least some of their differences over pending cabinet changes.

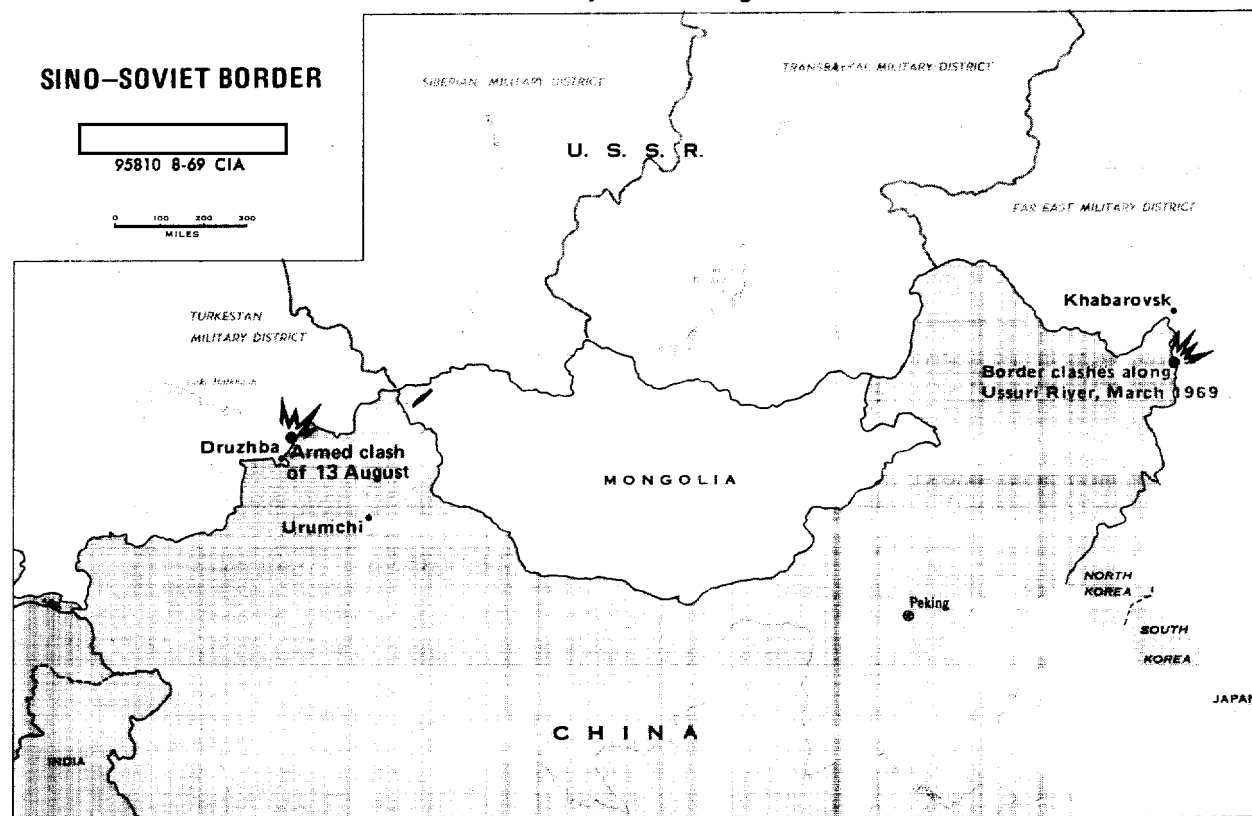
The two leaders have agreed to broaden the makeup of the cabinet. Although details are lacking, it seems likely that Huong will now stay on as prime minister in exchange for his agreeing to Thieu's call for more politicians in the new cabinet.

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## New Incident Reported Along Sino-Soviet Border



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Communist China - USSR: The latest border clash appears to be an outgrowth of the high level of tension that now exists rather than a deliberate prelude to enlarged military action.

The exchange on 13 August is the latest in a series of armed incidents that have occurred recently along this same stretch of the Sinkiang-Kazakhstan border. Last June, the two sides exchanged charges of an "armed intrusion." In May, the Soviets claimed that Chinese troops had "illegally" occupied several square miles of their frontier territory.

Peking was the first to publicize the clash, portraying the Soviets as the unreasonable, aggressive party in the dispute. Then each side immediately delivered a note to the other accusing it of provoking the clash.

The notes imply that this is one of the largest clashes since the incidents last March on the Ussuri River along the eastern portion of the frontier. According to the Chinese note, "several hundred" troops were involved and a "number" of casualties resulted. The Soviets also claim to have "detained" two Chinese officers.

Recent developments, including the limited agreement on border river navigation signed in Khabarovsk last week, have suggested that neither side wishes the inflamed border situation to get out of hand. Neither country is likely to compromise fundamental positions, however, and this latest incident can only increase the tensions in the border situation and add to its explosive potential.  (Map)

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USSR-Mediterranean: The Soviet Navy may conduct sizable operations in the Mediterranean in the next two weeks.

A guided missile cruiser which visited Bulgaria earlier this week passed through the Bosphorus yesterday.

Five other ships have recently entered the Mediterranean, including one of the new Kresta-class guided missile cruisers, an Alligator-class landing ship, two guided missile frigates, and a guided missile destroyer.

Many of the ships now in the Mediterranean may soon return to Soviet waters, but could join the new arrivals in a major operation--possibly including an amphibious landing on the Egyptian coast--before going home. Several Soviet warships joined the Egyptians in such an exercise a year ago.

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Malaysia: Prime Minister Rahman has decided to play an active role in the National Operations Council, which has ruled Malaysia since the outbreak of communal violence last May.

Rahman told the press on 12 August that he will start participating in the ruling council next week. He implied that he would take over direction of the council from Deputy Prime Minister Razak.

Both Razak and Home Minister Ismail, the number two man on the council, have opposed extremist efforts to unseat the prime minister. It is not at all certain, however, that they are fully behind Rahman's efforts to reassume a paramount position in the government. There has been a widespread expectation that Razak would take over completely in the fairly near future. This view was based not only on Rahman's age and health but, more importantly, on the fact that he no longer commands significant support within the Malay community.

No matter how carefully Rahman may move in the coming weeks, his efforts to reassert his authority will be opposed by the Malay extremists. Rahman's efforts could also lead to factional infighting which would weaken the moderate camp.

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India-Nepal: Conciliatory gestures by both Nepal and India may mark an easing in recently troubled relations between the two countries.

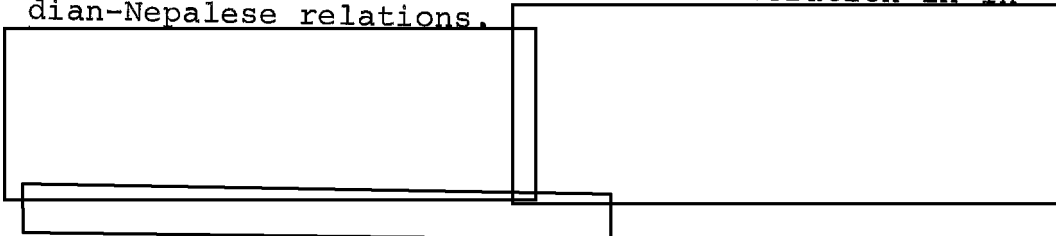


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The Nepalese publicly announced on 12 August their intention to negotiate with New Delhi for the withdrawal from Nepal of Indian military advisers and checkpoint personnel stationed near the Tibet-Nepal border. They also noted, with unusual cordiality, that both countries had made efforts to seek "just and mutually satisfactory solutions" to bilateral problems. Although discussions on trade problems, originally scheduled for mid-August, have been postponed, they are likely to be held after the political talks.

A warming trend in Indian-Nepalese relations has been evident since 21 July when the Indian foreign minister announced India's willingness "in principle" to withdraw its military advisers and border watchers and to hold bilateral negotiations.

Mutual self-interest tends to favor conciliation because each side is well aware that only Communist China can profit from a further deterioration in Indian-Nepalese relations.



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Bolivia: Relations are tense again between President Siles and armed forces commander in chief Ovando following Siles' appointment of a number of prefects and mayors without consulting Ovando. Because these local officials will interpret and implement electoral laws during the elections next year, Ovando wants any vacant posts filled with administrators who will be sympathetic to his campaign. Ovando plans to meet with the regional army commanders on 15 August to consider the entire range of Siles' increasingly independent actions. Although he told the US ambassador that he would overthrow Siles if the commanders so decided, Ovando would probably resist pressures to take such action. [REDACTED]

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Uruguay: Civil disturbances, possibly including attacks on US property, are expected in Montevideo today. The Communist Party and radical student groups will be commemorating the anniversary of the death of Liber Arce, a Communist student killed during student-police clashes a year ago. President Pacheco put the country under a limited state of siege last month, and the security forces are prepared to deal forcefully with any trouble. [REDACTED]

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